

# INFLUENCE OF FINANCIAL RATIOS TOWARD RETURN ON ASSETS OF INDONESIA'S FURNITURE COMPANIES

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## Abstract

In midst of current geopolitical instability, furniture industry is confronted with challenges arising from the global economic uncertainty. In this era, furniture companies are expected to optimize their operations to achieve maximum profitability while considering financial ratios. The objective of this research is to evaluate impact of Current Ratio, Debt to Equity Ratio, Total Asset Turnover, and Net Profit Margin on Return on Asset in furniture industry companies listed on the Indonesia Stock Exchange from 2019 to 2022. This study employs a quantitative method, utilizing secondary data obtained from [www.idx.co.id](http://www.idx.co.id). Sampling method involves saturation sampling. Analytical tools include descriptive statistical analysis, normality test, multicollinearity test, heteroskedasticity test, autocorrelation test, multiple linear regression analysis, T-test, F-test and the determination coefficient (R<sup>2</sup>) test. The result of the analysis in this study concludes that independent variables, namely Current Ratio and Debt to Equity Ratio partially have not significant impact to the dependent variable, Return on Asset in furniture industry companies listed on the Indonesia Stock Exchange from 2019 to 2022. Whilst, Total Asset Turnover and Net Profit Margin have significant and positive impact to dependent variable, Return on Asset in furniture industry companies listed on Indonesia Stock Exchange from 2019 to 2022. Result of this analysis also concludes that simultaneously, all independent variables such as Current Ratio, Debt to Equity Ratio, Total Asset Turnover and Net Profit Margin have a significant and positive impact to dependent variable, Return on Asset in furniture industry companies listed on Indonesia Stock Exchange from 2019 to 2022.

Keywords: Current Ratio, Debt to Equity Ratio, Total Asset Turnover, Net Profit Margin, Return on Asset

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## INTRODUCTION

The current geopolitical situation is marked by various instabilities affecting the global economy. Data from [Ekonomi.republika.co.id](http://Ekonomi.republika.co.id), (2023) shows an escalation of conflict between Ukraine and Russia in the first quarter of 2023, impacting countries worldwide. Ongoing wars raise concerns about global economic growth. In the third quarter of the same year, a new conflict emerged between Israel and Hamas in the Middle East, adding further uncertainty to the world economy ([Cnbcindonesia.com](http://Cnbcindonesia.com), 2023).

The furniture industry, encompassing production, distribution, and retail sales for households and commercial purposes, plays a significant role in the global economy. Furniture products are found in various locations, from homes and offices to schools and open spaces. As part of the Fast-Moving Consumer Goods (FMCG) sector, the global furniture market strongly depends on global economic changes. During recessions, demand for furniture tends to decrease as consumers become more cautious in their spending, especially on non-essential items like furniture renovations due to income reductions.

Indonesia, being one of the largest furniture exporters globally, holds a significant position in the global market. According to [Kemenperin.go.id](http://Kemenperin.go.id) (2022), Indonesia's furniture exports reached USD 2.5 billion in 2021, with the United States, Japan, the Netherlands, Germany, and Belgium as the top five export destinations. However, [DataIndonesia.id](http://DataIndonesia.id) (2023) reports a 1.99% annual decline in the value of Indonesian furniture exports throughout 2022. [Databoks.katadata.co.id](http://Databoks.katadata.co.id) (2023) further shows a more significant decline of 30.9% in the first half of 2023. This decrease in export sales is primarily attributed to the instability of the global geopolitical situation and inflation impacting the destination countries for Indonesian furniture exports.

The decline in sales has a direct impact on a company's Return on Assets (ROA). ROA measures how efficiently a company uses its assets to generate profit. A decrease in sales leads to reduced revenue, affecting the income component in the ROA formula. The ROA formula is Net Income divided by Total Assets. With declining revenue, the net income generated by the company may also decrease, especially if operational costs remain relatively fixed or not proportional to the drop in revenue. Thus, the numerator in the ROA formula (Net Income) tends to decrease. On the denominator side (Total Assets), the decrease in sales can also affect how efficiently a company utilizes its assets. If fixed assets (such as factories or equipment) were acquired to support higher sales levels, a decrease in sales would result in the same assets being used at a lower revenue level. This can lead to the denominator in the ROA formula becoming larger, potentially lowering the overall ROA value. In other words, a decline in sales can have a dual impact on ROA: decreasing revenue (numerator) and affecting the efficiency of asset utilization (denominator).

Therefore, companies need to carefully monitor sales declines and identify strategies to manage operational costs and maximize asset efficiency to maintain a healthy ROA level. By examining financial performance, a company can be considered an object to assess potential future developments suitable for the company. The company also requires a more in-depth financial analysis because financial reports are used as an assessment of performance in the company's industry. Financial reports are a factual medium summarizing all company activities, intended to communicate the company's situation, condition, and attitude to stakeholders, primarily creditors, shareholders or investors, and the company's management itself. They are also used as a tool for comparing the company's condition from the previous year to the current year, determining whether the company has developed or not, until the company evaluates possible agreements to be set for the upcoming annual period in line with the company's performance.

Ningsih et al. (2020) reveal that financial reports are one of several primary sources of information for a company to understand the dynamics of its growth towards positive or negative directions. Financial statement analysis is crucial to understand and evaluate these reports so that the company's financial condition regarding future performance can be predicted, aiming to provide good consideration for the company with its profitability level and risk level (Edy Firmansyah et al., 2022). Evaluating a company's performance can be done by looking at its capacity to pay financial obligations, both long-term and short-term. Additionally, the company's ability to optimize asset usage is a consideration, as well as its excellence in achieving profits, including aspects of sales, asset management, and stock capital.

Calculation ratios are used in tracing financial reports to assess the financial situation of the company in the previous period, the current period, and the future period. Comparisons or ratios can be calculated based on data consisting of both reasoning and balance sheet ratios, which are ratios compiled based on data derived from the balance sheet, profit and loss statement ratios, and ratios composed of balance sheet data. Financial ratios are one means of analysis for financial information. These ratios include liquidity ratios, solvency ratios, activity ratios, growth ratios, and profitability ratios.

Financial ratio comparisons reflecting a company's industry performance in creating profit are comparison ratios and profitability. Profitability is one of several indicators used to calculate a company's financial performance and success. Husain et al. (2020) state that profitability is a measure to detect the amount or level of profit as a benchmark for evaluating a company's activities over a certain period. Tan & Hadi (2020) explain that ROA indicates the return on the company's use of assets to obtain net profit. The calculation result of ROA divides the company's ability to operate a specific asset, namely how high the company's management uses its assets to manifest profit.

The company's liquidity capability displays the company's strength in financing its operations and fulfilling financial obligations when called upon. Liquidity ratios are comparisons that describe a company's ability to settle quickly due obligations. Current Ratio, abbreviated as CR, is a comparison to determine the amount of assets available to meet short-term obligations (Nuryani & Sunarsi, 2020).

The capital factor used is also a profitability factor for the company. Solvency ratios are ratios to calculate the extent to which the ownership of assets or the capital structure of a company is financed using loans or debt. One measurement of the ratio is the Debt to Equity Ratio. According to Kurniawan (2021), the Debt to Equity Ratio illustrates the ratio between total debt liabilities and the company's capital structure. The higher the DER, the larger the composition of overall debt compared to its overall ownership capital structure, thus having a larger impact externally. This can potentially downgrade the company's performance because the level of external connection increases. A higher proportion of DER reflects a higher risk for the company to fail to pay its debts (Kurniawan, 2021).

The measurement of company activity ratios refers to asset management ratios, which aim to measure how efficiently the company manages its assets to create profit (Arsyad et al., 2021). Activity Ratios or activity ratios fall into one of several comparisons measuring the company's ability to perform activities based on the resources owned by the company. The amount of company profits is driven by the company's ability to realize profits through sales activities, using its total assets reflected through Total Assets Turn Over. TATO is one of the measurements of reason or activity ratios. TATO can also be called turnover in asset turnover. This ratio looks at how potentially total assets owned by the company are being turned. The better the TATO ratio, the faster the asset turnover, indicating that the company can achieve sales and profit simultaneously, showing that asset usage is efficient for generating sales (Arsyad et al., 2021).

Net Profit Margin (NPM) is also considered to influence a company's ROA because a higher NPM value reflects good sales. A good NPM value is also an indicator that the company has managed its costs efficiently, resulting in higher net income. High net income will increase the ROA value (Fitriani & Febriyanti, 2023).

In previous research by Nilam Permata Sari et al. (2023), it is shown that CR, TATO, and NPM have a significant positive impact on ROA. Meanwhile, DER has a significant negative impact on ROA. Simultaneously, all independent variables significantly affect ROA. Another study by Br Tarigan et al. (2021) states that CR, TATO, and NPM have a significant positive impact on ROA, while DER has a significant negative impact on ROA. Research by Tan & Hadi (2020) indicates that CR does not have a significant impact on ROA in pharmaceutical companies listed on the IDX. On the other hand, DER does not have an impact on ROA. Meanwhile, TATO movement is not in line with fluctuating ROA movements. Company size in this study also does not have a significant impact on ROA. Risky et al. (2020) state that CR has a positive impact on profitability represented by ROA in property and real estate companies listed on the IDX. Meanwhile, DER in this study does not affect ROA in property and real estate companies listed on the IDX. Also, company size does not affect ROA in property and real estate companies listed on the IDX.

It can be observed from previous studies that there are still differences regarding the factors influencing profitability represented in the Return on Asset (ROA) ratio. Therefore, this research will use profitability ratios, proxied by Return on Assets as a financial performance indicator for the company. ROA reflects the results of a company's use of assets to generate net profit, and a higher ROA indicates better company performance. In this study, factors and ratios that influence such as Capital Adequacy Ratio (CR), Debt to Equity Ratio (DER), Activity Ratio (TATO), and Net Profit (NPM) will be explored to understand how these factors affect the ROA of furniture companies listed on the Indonesian Stock Exchange.

Based on this background framework, this study will answer questions about the relationship between Current Ratio (CR), Debt to Equity Ratio (DER), Total Assets Turnover (TATO), and Net Profit Margin (NPM) with Return on Asset (ROA) in furniture companies. The research aims to provide valuable insights for company management, investors, and stakeholders in making strategic decisions amid the dynamics of the global economy. The research problems are as follows: First, does the Current Ratio (CR) significantly impact Return on Asset (ROA)? Second, how does Debt to Equity Ratio (DER) influence ROA in the context of a company's financial performance? Third, does Total Assets Turnover (TATO) play a crucial role in influencing a company's ROA? Lastly, how does Net Profit Margin (NPM) affect the profit level reflected in ROA?

The objectives of this research focus on four main aspects: (i) testing and analyzing the influence of Current Ratio (CR) on Return on Asset (ROA), (ii) testing and analyzing the influence of Debt to Equity Ratio (DER) on Return on Asset (ROA), (iii) testing and analyzing the influence of Total Assets Turnover (TATO) on Return on Asset (ROA), and (iv) testing and analyzing the influence of Net Profit Margin (NPM) on Return on Asset (ROA). Additionally, the research is aimed at providing significant benefits to various parties. For the author, this study serves as a tool to apply financial management theory learned during coursework, deepen understanding of the studied field, and contribute to literature and knowledge in financial statement analysis.

The research also involves positive contributions to furniture companies and their owners. The research results are expected to guide financial arrangements, with a review of CR, DER, TATO, NPM, and ROA as criteria in decision-making to improve the financial performance of companies. Finally, for readers, this study is expected to provide useful information and advice, contributing to the addition of knowledge in the development of better research studies, especially those related to financial management. Summarizing the goals and benefits of this research, it is expected to have a positive contribution to the understanding and development of financial management practices.

## **LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

### **Pecking Order Theory**

The pecking order theory, first introduced by Donaldson in the 19th century, depicts a company's behavior in determining funding sources for their operational and investment financing. According to Oktaviyanti & Sumartik (2023), the pecking order theory explains the hierarchy in corporate financing decisions. Profitable companies primarily opt for internal funding preferences and reduce reliance on debt. This is because such companies require minimal external financing. On the other hand, less profitable companies tend to choose debt preferences as internal funds alone cannot meet their needs.

### **Trade-Off Theory**

Trade-Off Theory is another relevant theory in understanding the capital structure and profitability of companies. This theory emphasizes that companies must strike a balance

between the costs of debt and its benefits to company profits. In this regard, companies may consider the interest costs incurred on debt, which can impact the profitability of the company. The Trade-Off Theory predicts the cost and benefit analysis of debt financing to achieve an optimal financing structure. The static Trade-Off Theory of capital structure, which includes a leverage target, emphasizes the idea that companies make a trade-off between the costs and benefits of debt. This trade-off can explain cross-sectional variations in leverage ratios across all companies (Garnadi et al., 2023).

### **Current Ratio (CR)**

Current Ratio (CR) is a ratio that explains a company's ability to meet its short-term obligations. It is also one of several liquidity ratios. A company with a high level of liquidity is considered good because it can pay its short-term debts, ensuring the smooth operational turnover of the company. Pujarani (2023) states that a high level of liquidity reflects that the company's current assets are greater than its short-term liabilities, which positively influences the company in increasing its overall value.

Pujarani (2023) indicates CR as the extent to which total liabilities can be paid by total assets that can be converted into cash or cash flow quickly. The higher the CR, the company is considered more capable of meeting short-term obligations (Tan & Hadi, 2020). The calculation of CR is done by comparing the total current assets with total current liabilities. According to Tan & Hadi (2020), the calculation of CR is as follows:

$$\text{Current Ratio (CR)} = \frac{\text{Current Asset}}{\text{Current Liabilities}} \quad (1)$$

Erik & Hutasoit (2022) define current assets as cash and other assets that are expected to be sold or converted into cash within one year or during one operating cycle. Current assets, according to Munawir (2017), include cash and other assets intended to be liquidated or converted into cash and sold in the next period, no later than one year or during the normal business cycle.

Current liabilities are short-term obligations of a company, due within one year, meaning these debts must be settled within a maximum period of one year. Current liabilities consist of trade payables, one-year bank loans, promissory notes, salary liabilities, tax liabilities, dividend liabilities, prepaid expenses, long-term liabilities that are nearly due, and other short-term liabilities (Munawir, 2017).

### **Debt to Equity Ratio (DER)**

Debt to Equity Ratio (DER) is a solvency ratio. Pujarani (2023) indicates that the solvency ratio, also known as leverage, measures a company's capacity to meet all its obligations. Tan & Hadi (2020) explain that DER is the ratio of debt to equity in a company's sources of financing and reflects the company's ability to meet all of its obligations using its own capital.

A higher DER ratio means more funds are used as external financing. The larger the DER, the lower the company's solvency in repaying its debts, indicating relatively high financial risk for the company. The calculation of DER, according to Tan & Hadi (2020), is as follows:

$$\text{Debt to Equity Ratio (DER)} = \frac{\text{Total Debt}}{\text{Equity}} \quad (2)$$

Liabilities are obligations arising from financing that require future payments, which can be in the form of money, services, or other assets. According to Kasmir (2019), it is the current debts of a company originating from past events that are expected to result in an outflow of resources from the company that carries economic benefits.

In the perspective of D. P. Darminto (2019), equity is the residual right or residual interest in the assets of the company after deducting all liabilities (net assets). Equity represents the owner's claim to the net assets of the company.

### **Total Asset Turnover (TATO)**

Total Asset Turnover (TATO) is a ratio used to assess the efficiency of the turnover of all assets owned by a company and to determine how much sales are generated from each unit of asset value (Kasmir, 2019). The TATO ratio reflects how efficiently a company utilizes its asset ownership to generate sales and profits for the business. The more efficient a company is in leveraging its assets to achieve profits, the better its level of profitability will be (Tan & Hadi, 2020).

The higher the TATO ratio, the more efficiently the company uses its total assets to generate sales. The calculation of TATO, according to Tan & Hadi (2020), is as follows:

$$\text{Total Asset Turnover (TATO)} = \frac{\text{Sales}}{\text{Total Asset}} \quad (3)$$

Total asset sales are revenues generated from the sale of products, including both goods and services. Assets are resources fully controlled by a company entity with the aim of generating profit. Assets are classified into two groups: assets that can be quickly converted into cash (current assets) and assets that cannot be quickly converted into cash (non-current assets) (K.R & Wilid, 2014).

### **Net Profit Margin (NPM)**

Net Profit Margin (NPM) is a measure of profit or profitability ratio that compares the net income after tax and interest of a company with its sales. According to Br Tarigan et al. (2021), a good NPM is closely tied to the specific industry indicators of the company. The higher the NPM, the better the operational efficiency of the company.

In this study, the measurement of NPM is carried out with the following formula (Mulyana et al. 2023):

$$\text{Net Profit Margin (NPM)} = \frac{\text{Net Profit}}{\text{Sales}} \quad (4)$$

### **Return on Asset (ROA)**

Return on Assets (ROA) is a profitability ratio that indicates the return or profit generated by a company from its operational activities. The larger the ROA ratio, the better the profitability of the company.

Kasmir (2019) explains that ROA is a ratio that reflects the results obtained from the use of total assets in the company's operations. This ratio is used to assess the level of return on investment made by the company by utilizing all of its assets (D. P. Darminto, 2019). Based on the theories mentioned above, it can be concluded that ROA measures the company's ability to generate profit from the activities it undertakes. By measuring this ratio, it can be determined whether the company is efficient in creating profitability in the utilization of its assets in operational activities.

The calculation of ROA according to Tan & Hadi (2020) is as follows:

$$\text{Return on Asset (ROA)} = \frac{\text{Net Profit after Tax}}{\text{Total Asset}} \quad (5)$$

### **The Influence of Current Ratio on Return on Asset**

The Current Ratio, representing a liquidity ratio, explains a company's ability to meet its short-term financial responsibilities. Pujarani (2023) explains that a high level of liquidity, as

reflected in a high Current Ratio (CR), can provide flexibility for a company to manage its assets influenceively and efficiently. Therefore, the company has the potential to achieve higher returns, along with an improved ability to meet short-term obligations. The pecking order theory asserts that companies tend to use internal funding sources before considering external debt. Therefore, if a company has a high Current Ratio, indicating sufficient liquidity, it may reflect the company's tendency to rely on internal resources, such as retained earnings and cash, to meet its financial needs.

In other words, a high Current Ratio can be interpreted as an indicator that the company has enough internal resources to finance its operations without relying on additional debt. With this understanding, it can be assumed that companies with high liquidity, following the pecking order theory, have the potential to achieve higher returns through more influenceive financial management. Referring to the research conducted by Risky et al. (2020), a significant positive influence occurs in the relationship between CR and ROA. Based on this explanation, the hypothesis proposed is:

***H1: There is a positive and significant influence of Current Ratio on Return on Asset.***

### **The Influence of Debt to Equity Ratio on Return on Asset**

Debt to Equity Ratio (DER) is a comparison between debt and equity in a company's financing. DER indicates the ability of a company's equity to meet all its obligations. Tan & Hadi (2020) in their research show that the higher the DER, the lower the company's ability to pay its debts, and the higher the company's risk. This, in turn, has a negative influence on the company's profitability reflected through ROA.

The trade-off theory states that there is a trade-off relationship between risk and return in the selection of a company's capital structure. In other words, the decision to use more debt (high DER) can increase the potential return but also increase financial risk. When a company decides to use more debt (high DER), even though it can increase the potential return, it also increases financial risk and limits the company's ability to pay off debts.

Therefore, a high DER can have a negative impact on profitability, as reflected in ROA. Thus, the trade-off theory reinforces the argument that a company's decision to have a high DER can be a contributing factor to the reduction of ROA. Referring to the research conducted by Prabowo & Sutanto (2019), a high DER has a significant negative influence on ROA. Hence, the proposed hypothesis is:

***H2: Debt to Equity Ratio negatively influences Return on Asset.***

### **The Influence of Total Asset Turnover on Return on Asset**

Total Asset Turnover (TATO) is a metric used to measure the turnover of all assets owned by a company. TATO also plays a role in assessing how much revenue is generated from each unit of assets (Kasmir, 2019). According to Tan & Hadi (2020), the higher the TATO, the more efficiently a company can utilize its assets to create profits through sales. If the efficient use of assets is maintained, the company becomes more influenceive in leveraging its assets to generate profit and enhance its profitability.

This aligns with research by A. A. Darminto & Fuadati (2020), indicating that higher TATO has a significantly positive impact on increasing ROA. Based on the explanations above, the hypothesis applied is:

***H3: Total Asset Turnover positively influences Return on Asset.***

### **The Influence of Net Profit Margin on Return on Asset**

According to Lubis et al. (2023), Net Profit Margin is considered capable of influencing the value of a company's ROA because the higher the productivity of a company in increasing profits, the greater the improvement in profitability or ROA. This occurs because the company's

improved performance in achieving profits enhances investor confidence to invest their capital in the company.

Although a high NPM tends to indicate a company's ability to retain significant net profit from each income, there are situations where a high NPM does not always mean a high ROA. This can happen because NPM only considers the net profit margin without considering efficiency in asset utilization. For example, a company may successfully generate a large net profit but also experience a significant increase in the total assets owned. If these assets are not efficiently used to generate additional income, ROA can remain low despite a high NPM. Therefore, while NPM highlights efficiency in cost management and net profit, ROA provides a more realistic picture of how the company uses its entire assets to achieve optimal profitability.

Hence, this research adopts a hypothesis in line with the study by Lubis et al. (2023), demonstrating a significantly positive influence between NPM and ROA.

**H4: Net Profit Margin positively influences Return on Asset.**

### Theoretical Framework

Ghozali (2021) elaborates that the theoretical framework provides a short explanation of the signs or phenomena that are the focus of the problem. The crucial criterion for a theoretical framework to be considered a scientist's belief involves a logical thought process in constructing a conception, leading to conclusions known as hypotheses. A well-constructed framework can theoretically explain the connection between independent and dependent variables.

This research aims to evaluate the impact or influence of Current Ratio (CR), Debt to Equity Ratio (DER), Total Asset Turnover (TATO), and Net Profit Margin (NPM) on profitability, represented by Return on Assets (ROA), in Indonesian furniture companies listed on the Indonesia Stock Exchange. The Independent Variables (X) include CR (X1), DER (X2), TATO (X3), and NPM (X4), while the Dependent Variable is ROA (Y). Thus, the theoretical framework of this study can be depicted as follows:

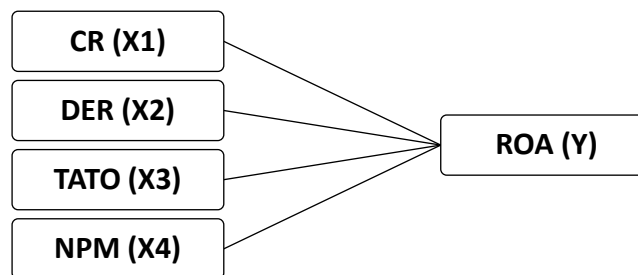


Figure 1: Theoretical Framework

## RESEARCH METHOD

### Type of Research

This research adopts a quantitative research approach. Quantitative research is based on the positivism philosophy and can be used to observe a specific population or sample, usually employing a random method in sample selection. It utilizes research tools for data collection and employs quantitative statistical analysis to test predetermined hypotheses (Ghozali, 2021). In this study, secondary data is used, which means all the data is collected from financial reports of furniture companies listed on the Indonesia Stock Exchange for the period 2019-2022.

### Sample and Population

Referring to book of Ghozali (2021), population means everything that is the subject of investigation and is examined by researchers. This research focuses on furniture companies



listed on the Indonesia Stock Exchange during the period 2019-2022 as the population, with a total of 8 furniture companies included in this study.

Sample is a coverage or representation of the population taken using specific efforts (Sugiyono, 2018). The author chooses to use the saturated sampling technique to determine the sample. Saturated sampling is a method of determining a sample where all members of a population are selected and used as the research sample (Sugiyono, 2018). In this research framework, the elements or samples of focus are the annual reports of furniture company entities officially listed on the Indonesia Stock Exchange during the period from 2019 to 2022.

### **Research Variables**

According to Ghozali (2021), research variables refer to all aspects identified by researchers as objects to be studied, with the aim of obtaining in-depth and significant information. This process enables careful conclusions and provides a solid foundation for further understanding of the investigated phenomenon.

In line with the title of this research, "Influence of Financial Ratios Toward Return on Assets of Indonesia's Furniture Companies" the author conducts testing with two categories of variables:

#### 1) Independent Variable, symbol: (X)

According to Ghozali (2021), independent variables in the context of this research are factors considered free and have the ability to influence the cause of changes or the emergence of dependent variables. Therefore, in the framework of this research, the identified independent variables involve CR, DER, TATO, and NPM.

#### 2) Dependent Variable, symbol: (Y)

Ghozali (2021) conveys that the dependent variable, also known as the dependent variable, refers to a factor or element that is influenced or becomes the result and consequence of variations or changes in independent variables. In other words, the dependent variable depends on changes in independent variables in a research or analysis. In line with the research framework to be examined, the only dependent variable selected for this study is ROA.

### **Data Collection Method**

Sugiyono, (2018) explains that the data collection method is a technique used to obtain data, explanations, or information that supports the research. In this study, the data collected is secondary data, which is obtained indirectly from the companies that are the objects of the research. The data analyzed in the context of this research comes from the financial reports of furniture companies that are correctly and officially listed on the Indonesia Stock Exchange ([www.idx.co.id](http://www.idx.co.id)) during the study period from 2019 to 2022.

### **Analysis Method**

The analysis method in this research involves using multiple linear regression. Multiple linear regression analysis can elucidate the impact between the dependent variable and the relevant independent variables. To facilitate the analysis in this study, the researcher employs the SPSS (Statistical Package for Social Science) application, which is a computer application for statistical data analysis. The analysis includes:

### **Descriptive Statistical Analysis**

Descriptive statistical analysis expresses the presence, format, or proportional data description, consisting of mean, median, maximum, minimum, standard deviation, and sum (Ghozali, 2021).

### **Classical Assumption Test**

Classical assumption tests are used to determine whether the multiple linear regression model used conforms to classical assumptions. In this research framework, tests are conducted for several classical assumptions to validate the model. These assumptions include tests for normality, multicollinearity, heteroskedasticity, and autocorrelation. By testing these assumptions, the researcher focuses on ensuring that the data and statistical analysis model used meet the requirements, which are fundamental and necessary.

### **Normality Test**

According to Tan & Hadi (2020), the normality test aims to determine and test whether there is a normal distribution in both regression models, dependent and independent variables. In the normality test, testing is done using the Kolmogorov-Smirnov test with a significance level  $> 0.05$ , meaning that the residual data is normally distributed, while a significance level  $< 0.05$  means that the residual data is not normally distributed.

### **Multicollinearity Test**

Multicollinearity testing is done to identify whether there is a significant correlation between independent variables in a model called regression. The results of this test provide the researcher with an overview of whether there is a problem called multicollinearity that affects the stability and interpretation of the regression model. A good regression model should not have correlation among independent variables Tan & Hadi (2020). To determine the level of multicollinearity between independent variables, it can be seen from the value of tolerance or tolerance and its opposite or Variance Inflation Factor abbreviated as VIF. If the tolerance value  $> 0.10$  and  $VIF < 10$ , then multicollinearity does not occur.

### **Heteroskedasticity Test**

According to Ghozali (2021), the heteroskedasticity test examines whether the variance of residual variables is constant or not constant in a regression model. If the residual variability from one observation to another remains constant, this condition is called homoskedasticity, while if the variability varies, the term used is heteroskedasticity. A truly good regression model is one that experiences homoskedasticity or does not have a problem called heteroskedasticity. The heteroskedasticity test can be performed by running the Glejser test while considering its significance score. The regression model is said to be free from heteroskedasticity problems if the significance value is greater than 0.05.

### **Autocorrelation Test**

The autocorrelation test is intended to determine the condition where there is a correlation between the residual at period  $t$  and the residual at the previous period  $(t-1)$ . In linear regression models, an autocorrelation test must be conducted if the data is time-series data (Ghozali, 2021). The decision-making basis is that if  $DU < DW < 4-DU$ , there is no autocorrelation. Conversely, if  $DU < DL$  or  $DW > 4-DU$ , symptoms of autocorrelation occur.

### **Multiple Linear Regression Analysis**

Multiple linear regression is used to determine the linear influence or relationship between two (2) or more independent variables and the dependent variable. Hypothesis testing in this research is carried out using multiple linear regression analysis, which employs statistical formulas, including:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + e \quad (6)$$

Explanation:

Y = Profitability (ROA)

a = Constant

b1 – b4 = Regression Coefficients

X1 = Current Ratio (CR)

X2 = Debt to Equity Ratio (DER)

X3 = Total Assets Turnover (TATO)

X4 = Net Profit Margin (Size)

e = Error Term / Other Factors

### **Partial Test (T-Statistic Test)**

The t-statistic test, commonly known as the partial test, is used to evaluate the individual efficiency of an independent variable in explaining the variation in the dependent variable (Ghozali, 2021). The t-test is conducted at a confidence level of 95%, with the analysis error level ( $\alpha$ ) set at 5% or 0.05. With this approach, the research can meticulously identify the relative contribution of each independent variable to the variation in the dependent variable, providing a more in-depth understanding of their impact in the context of the analytical model. If  $t_{value} > t_{table}$  or  $-t_{value} < -t_{table}$  and value sig  $< 0,05$  thus hypothesis is accepted whilst if  $t_{value} < t_{table}$  or  $-t_{value} > -t_{table}$  and value sig  $> 0,05$  thus hypothesis will be rejected or has no partial influence on the dependent variable.

### **Simultaneous Test (F-Statistic Test)**

The F-test, also known as the simultaneous test, is used to determine whether all variables referred to as independent and used in the model have a simultaneous or joint influence on the dependent variable. The calculated  $f_{value}$  is compared with the  $f_{table}$  at a significance level of 5%.

The criteria used are that  $H_0$  is accepted if value  $f_{value} < f_{table}$  or value sig  $> (\alpha)$  5% Whilst,  $H_0$  is rejected if  $f_{value} > f_{table}$  or value sig  $< (\alpha)$  5% this can be interpreted as the overall model or the combination of independent variables jointly providing a significant contribution to the variation or changes in the dependent variable.

### **Coefficient of Determination (R2)**

The coefficient of determination ( $R^2$ ) is a unique metric used to assess the extent to which the model can explain the variation that occurs in the dependent variable. The higher the value of the coefficient of determination, the better the independent variables are at explaining the variation in the dependent variable. A low  $R^2$  value indicates that the ability of the independent variables to explain the variation in the dependent variable is very limited. On the contrary, an  $R^2$  value approaching 1 means that the independent variables provide almost all the information needed to predict the variation in the dependent variable (Ghozali, 2021).

## **RESULTS AND DISCUSSION**

The object of study in this research is the annual financial reports of furniture companies that are properly and officially registered on the Indonesia Stock Exchange for the period 2019-2022. This study aims to examine the influence of Current Ratio (CR), Debt to Equity Ratio (DER), Total Assets Turnover (TATO), and Net Profit Margin (NPM) on Return on Assets (ROA) in furniture companies that are properly, officially, and have been listed on the Indonesia Stock Exchange. The total data collected by the author is 30 data points. This is because there are 2 companies, namely PT Panca Anugrah Wisesa Tbk and PT Oscar Mitra Sukses Sejahtera Tbk,

which were newly listed in 2020, so the financial reports available to the public are only for the period from 2020 to 2022.

### Descriptive Statistical Analysis

**Table 1: Results of Descriptive Statistical Analysis**

	N	Minimum	Maximum	Mean	Standard Deviation
<b>CR (X1)</b>	30	0,77853	4,37187	1,75716	0,71779
<b>DER (X2)</b>	30	0,29236	17,95923	1,47650	3,15975
<b>TATO (X3)</b>	30	0,06458	2,08903	0,76122	0,40842
<b>NPM (X4)</b>	30	-0,3420	0,1724	0,02209	0,08513
<b>ROA (Y)</b>	30	-0,19933	0,09657	0,01575	0,04919

Source: Secondary data analysis using SPSS version 26

Referring to Table 1 above, it can be understood that the minimum score of the ROA variable (Y) in the range from 2019 to 2022 is -0.19933, belonging to PT Chitose Internasional Tbk in 2021, and the maximum score is 0.09657, belonging to PT Cahaya Bintang Medan Tbk in 2019. Meanwhile, the average weight of ROA is 0.01575, and the standard deviation score of this variable is 0.04919. These data indicate that the ROA variable has a good spread of data. This is because the standard deviation score of the ROA variable is higher compared to the average score of the ROA variable.

The minimum score of the CR variable (X1) is 0.77853, belonging to PT Imago Mulia Persada Tbk in 2019, and the maximum score is 4.37187, belonging to PT Oscar Mitra Sukses Sejahtera Tbk in 2022. Meanwhile, the average weight of CR is 1.75716, with a standard deviation score of 0.71779. These data indicate that the CR variable has a less favorable data spread. This is because the standard deviation score of the CR variable is lower than the average score of the CR variable.

The minimum score of the DER variable (X2) is 0.29236, belonging to PT Chitose Internasional Tbk in 2020, and the maximum score is 17.95923, belonging to PT Imago Mulia Persada Tbk in 2019. On the other hand, the average weight of DER is 1.47650, with a standard deviation of 3.15975. This indicates that the data spread of the DER variable is good. These data indicate that the standard deviation score of DER is still higher than the average score of DER.

The TATO variable (X3) has a minimum score of 0.06458, belonging to PT Cahaya Bintang Medan Tbk in 2022, and a maximum score of 2.08903, belonging to PT Oscar Mitra Sukses Sejahtera in 2020. The average weight of TATO is 0.76122, with a standard deviation of 0.40842. These data indicate that the TATO variable has a less favorable data spread because the standard deviation score is lower than the average score of the TATO variable.

The minimum score of the NPM variable (X4) is -0.3420, belonging to PT Chitose Internasional Tbk in 2021, and the maximum score is 0.1724, belonging to PT Cahaya Bintang Medan Tbk in 2019. Meanwhile, the average for the NPM variable is 0.02209, with a standard deviation of 0.08513. This indicates that the data spread of the NPM variable is good because the standard deviation score is higher than the average score of the NPM variable.

**Classic Assumption Test  
Normality Test**

**Table 2: Result of Normality Test**

		Unstandardize d Residual
<b>N</b>		30
<b>Normal Parameters<sup>a,b</sup></b>	Mean	,0000000
	Std. Deviation	,01102768
<b>Most Extreme Differences</b>	Absolute	,144
	Positive	,144
	Negative	-,110
<b>Test Statistic</b>		,144
<b>Asymp. Sig. (2-tailed)<sup>c</sup></b>		,114

Source: Secondary data analysis using SPSS version 26

Normality test on Table 2 using the Kolmogorov-Smirnov Test yielded evidence that all variables Y and X have normally distributed data because they have an AsympSig (2-tailed) value of 0.114, which is higher than 0.05. Based on these results, it can be concluded that the data is normally distributed.

**Multicollinearity Test**

The multicollinearity test serves to conduct correlation tests between independent variables in a regression model. Multicollinearity testing is done through the VIF (Variance Inflation Factor) approach and what is called tolerance. The results of the multicollinearity test in this study are as follows:

**Table 3: Result of Multicollinearity Test**

Model	Collinearity Statistics	
	Tolerance	VIF
CR	,856	1,168
DER	,861	1,161
TATO	,969	1,032
NPM	,981	1,019

Source: Secondary data analysis using SPSS version 26

Based on the results of the multicollinearity test in the table above, it can be concluded that each independent variable, such as CR, DER, TATO, and NPM, shows tolerance values greater than 0.10 and VIF values less than 10. The test results indicate that there is no multicollinearity among all independent variables in this study.

## Heteroskedasticity Test

**Table 4: Result of Heteroskedasticity Test (Glejser Test)**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	,015	,006		2,80	,010
CR	-,001	,002	-,063	-,324	,748
DER	,000	,001	-,121	-,622	,539
TATO	-,008	,004	-,412	-	,330
				2,254	
NPM	-,007	,018	-,068	-,373	,712

Source: Secondary data analysis using SPSS version 26

The Glejser test is used to conduct heteroskedasticity tests in this study. Based on the table 4 above, it is found that all independent variables have significance values greater than the absolute residual value of 0.05. Based on this, it indicates that there is no heteroskedasticity problem with each independent variable in this study.

## Autocorrelation Test

**Table 5: Result of Autocorrelation Test (Durbin-Watson Test)**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,975 <sup>a</sup>	,950	,942	,0118772	2,213

Source: Secondary data analysis using SPSS version 26

Based on the results of the autocorrelation test in Table 5 above, the Durbin-Watson value obtained is 2.213. Next, this value will be compared with the Durbin-Watson table value at 5% significance level. The number of independent or dependent variables is 4, denoted as "k" = 4, while the sample size "N" = 30. From the table, the DW value is found to be 1.7386. The DW value for this study is 2.213, which is greater than DU (1.7386) and smaller than 4-DU (2.2614). Therefore, the conclusion is drawn that there is no autocorrelation in this research data.

## Multiple Linear Regression Analysis

**Table 6: Result of Multiple Linear Regression Analysis**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-,011	,008		-1,336	,194
CR (X1)	,002	,003	,032	,665	,512
DER (X2)	,001	,001	,058	1,198	,242
TATO (X3)	,012	,005	,100	2,205	,037
NPM (X4)	,557	,026	,963	21,285	,000

Source: Secondary data analysis using SPSS version 26

Based on Table 4.6, the multiple linear regression analysis yielded the regression equation:

$$Y = -0,011 + 0,002CR + 0,001DER + 0,012TATO + 0,557NPM + e$$

The interpretation of this equation is as follows:

- The constant of -0.011 indicates that when the values of CR, DER, TATO, and NPM are all zero, ROA is estimated to decrease by 0.011.
- The regression coefficient for CR of 0.002 indicates that for every unit increase in CR, ROA is expected to increase by 0.002.
- The regression coefficient for DER of 0.001 indicates that for every unit increase in DER, ROA is expected to increase by 0.001.
- The regression coefficient for TATO of 0.012 indicates that for every unit increase in TATO, ROA is expected to increase by 0.012.
- The regression coefficient for NPM of 0.557 indicates that for every unit increase in NPM, ROA is expected to increase by 0.557.

### Hypothesis Test

#### Partial Test (T-Statistic Test)

Based on the test results from Table 6 above, findings of the T-test can be elaborated as follows:

- The CR variable has a significance value of 0.512 > 0.05, and the  $t_{\text{value}}$  is 0.665 <  $t_{\text{table}}$  2.051. Therefore, the conclusion is that there is no significant partial influence of the CR variable on ROA.
- The DER variable has a significance value of 0.242 > 0.05, and the  $t_{\text{value}}$  is 1.198 <  $t_{\text{table}}$  2.051. Therefore, the conclusion is that there is no significant partial influence of the DER variable on ROA.
- The TATO variable has a significance value of 0.037 < 0.05, and the  $t_{\text{value}}$  is 2.205 >  $t_{\text{table}}$  2.051. Therefore, the conclusion is that there is a significant positive partial influence of the TATO variable on ROA.
- The NPM variable has a significance value of 0.000 < 0.05, and the  $t_{\text{value}}$  is 21.285 >  $t_{\text{table}}$  2.051. Therefore, the conclusion is that there is a significant positive partial influence of the NPM variable on ROA.

#### Simultaneous Test (F-Statistic Test)

**Table 7: Result of F Statistic Test**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	,067	4	,017	118,117	,000 <sup>b</sup>
Residual	,004	25	,000		
Total	,070	29			

Source: Secondary data analysis using SPSS version 26

The multiple linear regression analysis in this study resulted in an F-test presented in Table 7 above, indicating a significance value of 0.000 < 0.05 and an  $f_{\text{value}}$  of 118.11 <  $f_{\text{table}}$  2.73. Therefore, the conclusion drawn from the F-test in this study is that there is a significant simultaneous influence of CR, DER, TATO, and NPM on ROA.

#### Coefficient of Determination Test (R-squared)

**Table 8: Result of R- Squared Test**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.975 <sup>a</sup>	.950	.942	.0118772	2.213

Source: Secondary data analysis using SPSS version 26

Based on Table 8, the computed result in SPSS shows that the correlation coefficient (R) is 0.975. Therefore, it can be concluded that there is a strong and positive correlation between the independent variables and the dependent variable. Furthermore, as seen in the Adjusted R-Squared coefficient value of 0.942, it means that CR, DER, TATO, and NPM collectively account for 94.2% of the variation in ROA, while the remaining 5.8% is influenced by other variables not examined in this study.

#### **The Influence of Current Ratio (X1) on Return on Asset**

The test results and data analysis indicate that the alternative hypothesis (H1) is rejected. The Current Ratio (CR) variable has a total significance value of  $0.512 > 0.05$  and a t-value of  $0.665 < t\text{-table } 2.051$ . Therefore, it can be concluded that there is no significant partial effect of the Current Ratio (CR) variable on Return on Asset (ROA) in furniture companies listed on the Indonesia Stock Exchange for the period 2019-2022. This means that changes in the CR of companies do not affect the profitability of ROA. The reason CR is not found to affect ROA is that companies are not effective in utilizing internal funds to improve profitability and prefer long-term debt financing. This phenomenon is in line with the Pecking Order Theory, which suggests that companies prefer debt hierarchy as their first choice before using internal funds, and these companies are generally less profitable. This study seems to align with the findings of Tan & Hadi (2020) and Ardhefani et al. (2021), which state that CR does not partially affect ROA. However, this study differs from the findings of Risky et al. (2020), which state that there is a partial effect of CR on ROA.

#### **The Influence of Debt to Equity Ratio (X2) on Return on Asset**

The Debt to Equity Ratio (DER) variable has a significance value of  $0.242 > 0.05$ , and a t-value of  $1.198 < t\text{-table } 2.051$ . Therefore, it can be concluded that there is no significant partial effect of the Debt to Equity Ratio (DER) variable on Return on Asset (ROA). This means that the hypothesis H2 in this study is rejected. This result indicates that changes in DER do not significantly impact the level of profitability measured by ROA. This may be because the companies in the sample have already reached an optimal balance in their capital structure, where DER does not significantly contribute to the financial performance of the sampled companies. The results of this study can be related to the Trade-Off Theory, which suggests that companies make careful decisions in determining the proportion of debt and equity in their capital structure, considering the costs and benefits of each source of funds. This study seems to align with previous research by Risky et al. (2020), which showed no significant partial effect between DER and ROA. This study contradicts the findings of Ardhefani et al. (2021), which showed a highly significant influence between DER and ROA.

#### **The Influence of Total Asset Turnover (X3) on Return on Asset**

The test results and data analysis conducted in this study indicate that H3 in this research is accepted. The Total Asset Turnover (TATO) variable has a significance value of  $0.037 < 0.05$ , and a t-value of  $2.205 > t\text{-table } 2.051$ , concluding that there is a significant partial effect with a positive direction between the TATO variable and ROA in furniture companies listed on the Indonesia Stock Exchange for the period 2019-2022. The acceptance of H3 implies that changes in the level of asset utilization efficiency or TATO in companies have a significant and positive impact on the level of profitability measured by ROA. Several factors explaining these research findings include considerations of external conditions, specific characteristics of the furniture industry focus, as well as company management strategies and quality. The research findings support the conclusions of A. A. Darminto & Fuadati (2020), which found that TATO has a significant and positive impact on ROA. However, this study differs from the findings of research by Tan & Hadi (2020), which showed that TATO does not have a significant impact on company ROA.



### **The Influence of Net Profit Margin (X4) on Return on Asset**

The Net Profit Margin (NPM) variable has a significance value of  $0.000 < 0.05$ , and a t-value of  $21.285 > t\text{-table } 2.3051$ , indicating that there is a significant partial effect in a positive direction between the NPM variable and ROA. Therefore, H4 in this study is accepted. The acceptance of H4 indicates that in this study, NPM has a highly significant positive impact on the ROA of furniture companies listed on the Indonesia Stock Exchange.

With this result, it can be concluded that the higher the level of profit a company earns, the more significantly it will increase the profitability of ROA for the company. This is because profit plays a very good role in increasing the company's return on assets. This study is in line with the findings of research by Lubis et al. (2023) and Yudi Mulyana et al. (2023), which showed that NPM has a significant positive influence on a company's profitability measured by ROA.

### **The Influence of Current Ratio (X1), Debt to Equity Ratio (X2), Total Asset Turnover (X3), and Net Profit Margin (X4) on Return on Asset (Y)**

Based on the F-test, it is found that the significance value is  $0.143 > 0.05$ , and the calculated F-value is  $2.442 < F\text{-table } 4.12$ . Therefore, the conclusion drawn from the F-test in this study is that there is a significant simultaneous effect of Current Ratio (CR), Debt to Equity Ratio (DER), Total Asset Turnover (TATO), and Net Profit Margin (NPM) on Return on Asset (ROA) in furniture companies listed on the Indonesia Stock Exchange for the period 2019-2022. This means that if there is an increase or decrease in all variables CR, DER, TATO, and NPM together, it will have a significant positive effect on the company's ROA.

The results of the coefficient of determination test in this study also indicate a good and positive correlation between the independent variables and the dependent variable. Furthermore, as seen in the Adjusted R-Squared coefficient value of 0.942, it means that all independent variables in this study collectively account for 94.2% of the variation in ROA, while only 5.8% is influenced by other variables not examined in this study.

### **CONCLUSION**

This study aims to examine the influence of CR, DER, TATO, and NPM on the ROA of furniture industry companies listed on the Indonesia Stock Exchange during the observation period of 2019-2022. Based on the results or outputs of the research and discussions conducted by the researcher through several stages, the following conclusions are drawn:

1. CR does not significantly affect the ROA of furniture industry companies listed on the Indonesia Stock Exchange during the observation period of 2019-2022.
2. DER does not significantly affect the ROA of furniture industry companies listed on the Indonesia Stock Exchange during the observation period of 2019-2022.
3. TATO has a significant and positive effect on the ROA of furniture industry companies listed on the Indonesia Stock Exchange during the observation period of 2019-2022.
4. NPM has a significant and positive effect on the ROA of furniture industry companies listed on the Indonesia Stock Exchange during the observation period of 2019-2022.

### **Research Limitations**

This study, although expected to provide significant contributions to understanding the financial performance of furniture companies, still has several limitations that need to be considered:

1. The research period is relatively short, limited to the years 2019-2022, which may restrict the ability to observe long-term trends and more comprehensive variations. This limitation is further reinforced by the fact that the study only focuses on officially listed

furniture industry companies on the Indonesia Stock Exchange (BEI), resulting in a small sample size of only 8 companies involved.

2. The observation period was influenced by the extraordinary event of the Covid-19 pandemic. This pandemic has had a significant impact on the furniture industry. Changes in economic conditions, decreased purchasing power, and changes in consumption patterns have significantly affected furniture industry sales compared to normal periods.

### Research Suggestions

Based on the conclusions drawn from this research, the suggestions that the researcher would like to provide for future research and for companies are:

1. For future research, it is recommended to expand the observation period to cover a broader time range, allowing for a more comprehensive analysis of long-term trends.
2. In subsequent studies, it is advisable to consider adding or modifying independent variables beyond the set of variables examined in this study.
3. For investors aiming to profit, it is advisable to pay attention to other financial ratios that have an impact in this research when making investment decisions in furniture industry companies.
4. For companies, it is recommended to pay more attention to and make appropriate decisions regarding financial management that can influence the profitability of the company itself.

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